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AUDITOR GENERAL

**STATE OF ARIZONA**  
**OFFICE OF THE**  
**AUDITOR GENERAL**

WILLIAM THOMSON  
DEPUTY AUDITOR GENERAL

April 28, 2006

The Honorable Laura Knaperek, Chair  
Joint Legislative Audit Committee

The Honorable Robert Blendu, Vice Chair  
Joint Legislative Audit Committee

Dear Representative Knaperek and Senator Blendu:

Our Office has recently completed a 6-month followup of the Department of Administration—Human Resources Division, regarding the implementation status of the 23 audit recommendations (including sub-parts of the recommendations) presented in the performance audit report released in September 2005 (Auditor General Report No. 05-12). As the attached grid indicates:

- 3 have been implemented;
- 14 are in the process of being implemented; and
- 6 have not been implemented.

Our Office will continue to follow up at 6-month intervals with the Department on the status of those recommendations that have not yet been fully implemented.

Sincerely,

Debbie Davenport  
Auditor General

DD:Acm  
Attachment

cc: Bill Bell, Director  
Arizona Department of Administration

**DEPARTMENT OF ADMINISTRATION  
HUMAN RESOURCES DIVISION  
6-Month Follow-Up Report To  
Auditor General Report No. 05-12**

**FINDING 1: Department should strengthen management of self-funded health benefits program**

<b>Recommendation</b>	<b>Status of Implementing Recommendation</b>	<b>Explanation for Recommendations That Have Not Been Implemented</b>
1. To help ensure the appropriate use of consultants, the Department should identify and clearly define the activities a consultant should perform related to program management and oversight by adopting a written policy that includes a general description of the consultant's overall duties and expertise, potential activities that could be contracted to a consultant, expected work products and/or deliverables, and procedures for monitoring and tracking consultant activities.	<b>Implemented at 6 Months</b>	
2. Once this policy is in place, the Department should ensure that its consulting contracts conform to the policy requirements and include expected work products and/or contract deliverables.	Implementation in Process	
3. The Department should ensure that it receives regular, written reports from its consultant that provide sufficient detail on activities and contract deliverables met.	Implementation in Process	

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**FINDING 1: Department should strengthen management of self-funded health benefits program (cont'd)**

<b>Recommendation</b>	<b>Status of Implementing Recommendation</b>	<b>Explanation for Recommendations That Have Not Been Implemented</b>
4. The Department should improve its performance measures by:		
a. Developing quality-of-care performance measures based on and including HEDIS standards for the self-funded health benefits plan's vendors;	Implementation in Process	
b. Tracking vendor performance for the quality-of-care performance measures it institutes;	Implementation in Process	
c. Developing performance standards for its quality-of-care measures once it has sufficient data;	Implementation in Process	
d. Establishing additional performance standards for its vendor performance measures to encourage continual improvement; and	Implementation in Process	
e. Establishing policies and procedures for verifying vendor reports of compliance with performance measures.	Implementation in Process	

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**FINDING 1: Department should strengthen management of self-funded health benefits program (cont'd)**

Recommendation	Status of Implementing Recommendation	Explanation for Recommendations That Have Not Been Implemented
5. The Department should develop a plan for conducting operational and financial reviews of its program vendors. This plan should include such information as the staff and expertise needed to conduct the reviews, whether these reviews will be conducted by in-house staff or outside consultants, the frequency of the reviews, a comprehensive description of a review process, the standards for assessment, how findings and recommendations will be reported, and vendor responsibilities related to the review.	<b>Not Implemented</b>	While the Department has yet to take action on this recommendation, it reports that it will begin assessing the recommendation and the resources needed to implement it.
6. The Department should establish policies and procedures documenting its process for handling appeals.	<b>Implemented at 6 Months</b>	
7. The Department should continue with its efforts to develop a staffing plan and ensure that this plan includes:		
a. The positions needed, their duties, and an analysis of appropriate personnel costs.	Implementation in Process	

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Auditor General Report No. 05-12**

**FINDING 1: Department should strengthen management of self-funded health benefits program (concl'd)**

<b>Recommendation</b>	<b>Status of Implementing Recommendation</b>	<b>Explanation for Recommendations That Have Not Been Implemented</b>
b. Consideration of what types of specific expertise is needed or what types of management or oversight functions need to be performed; and	Implementation in Process	
c. Consideration of what additional staffing may be needed to implement the recommendations made in this report regarding additional oversight activities.	Implementation in Process	
8. If the Department determines that it needs additional staff, it should assess whether it could reassign existing staff or take other steps, as appropriate, to seek additional staff.	Implementation in Process	

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**FINDING 2: Self-funded health benefits program financially stable, but additional steps needed to ensure sound operations**

<b>Recommendation</b>	<b>Status of Implementing Recommendation</b>	<b>Explanation for Recommendations That Have Not Been Implemented</b>
1. The Department should establish contractual provisions requiring its vendors who process medical claims to:		
a. Apply control procedures necessary for the effective administration of the self-insurance program; and	Implementation in Process	
b. Obtain independent annual audits of claims payment processing controls and claims payment data.	Implementation in Process	
2. The Department should maintain and review the audit reports of its vendors' controls for their claims payment processes and require corrective action plans if deficiencies are noted.	Not Implemented	While the Department has yet to take action on this recommendation, it reports that it will begin assessing the recommendation and the resources needed to implement it.
3. The Department should develop and conduct reviews to ensure claims are paid in compliance with benefit plan provisions.	Not Implemented	While the Department has yet to take action on this recommendation, it reports that it will begin assessing the recommendation and the resources needed to implement it.

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**FINDING 2: Self-funded health benefits program financially stable, but additional steps needed to ensure sound operations (cont'd)**

Recommendation	Status of Implementing Recommendation	Explanation for Recommendations That Have Not Been Implemented
4. The Department should evaluate the findings and recommendations made in the August 2005 consultant's report on the Department's processes, staff roles, and technology in support of eligibility determinations, transfer of eligibility data to vendors, and payments, and implement needed recommendations.	Not Implemented	While the Department has yet to take action on this recommendation, it reports that it will begin assessing the recommendation and the resources needed to implement it.
5. The Department should ensure that it receives claims data from all of its vendors and establishes verification procedures to ensure the appropriateness of all claim payments.	Not Implemented	While the Department has yet to take action on this recommendation, it reports that it will begin assessing the recommendation and the resources needed to implement it.
6. The Department should determine how many years of claims data should be retained to properly analyze the program and its continuing costs.	Not Implemented	While the Department has yet to take action on this recommendation, it reports that it will begin assessing the recommendation and the resources needed to implement it.

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**FINDING 2: Self-funded health benefits program financially stable, but additional steps needed to ensure sound operations (concl'd)**

<b>Recommendation</b>	<b>Status of Implementing Recommendation</b>	<b>Explanation for Recommendations That Have Not Been Implemented</b>
7. When contracting for the services of an actuary, the Department should:		
a. Ensure it receives an actuarial report documenting the methodology and source of the data used by the actuary to arrive at his/her cost projections; and	<b>Implemented at 6 Months</b>	
b. Contract with an actuarial firm that is not involved in program management or oversight.	Implementation in Process	